

SECRET

Approved For Release 2004/03/16 : CIA-RDP80M00165A001500050016-7

Executive Registry

77-3889

25 MAR 1977

MEMORANDUM FOR: Admiral Stansfield Turner, U.S. Navy
Chairman, NFIB

FROM : Admiral Daniel J. Murphy, US Navy
Vice Chairman, NFIB

SUBJECT : Release of "The Soviet Civil Defense
Program" as Unclassified

1. On 17 March 1977, the National Foreign Intelligence Board was requested to concur in the release of subject memorandum.

2. The action was referred to an NFIB working group who concluded on 24 March as follows: (See Attachment A).

3. We have taken your draft (dated 16 March 1977) and marked it to show the working group's proposed revisions. (Att. B) You will note that no member disagrees with releasing the memorandum. USAF and Army are observers with no vote.

4. Do you want to discuss this on Monday, 28 March, with NFIB?

Will discuss with NFIB _____

Will not discuss with NFIB _____

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NFIB Reactions to Unclassified Draft,
"The Soviet Civil Defense Program"

The NFIB reps met yesterday to review the unclassified draft (USAF did not attend).

There seemed to be serious reservations about releasing an unclassified draft at this time, particularly with State, USAF and Army. State's reaction, which seems reasonable, is to delay the release until Vance has completed his Soviet trip. The other reservations are based in part on release of broad conclusions based on quick analysis of fragmentary data.

The major substantive change was in regard to the shelter statistics extrapolated from the [REDACTED]. The reps felt these data could be misused and didn't add much to public understanding of the program. They also felt the language used expressed the lack of intelligence information currently available on the shelter issue.

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I believe that the editorial changes made by the reps would be acceptable to the Admiral. The change that will probably bother him appears on pages 5-6 of the draft sent out for coordination. This change principally is the deletion of the statistics with the only number in the revised draft being a judgment that "a maximum of 7% of the urban population could be housed . . . in shelters."

The reps would like the revised draft taken up at the NFIB meeting on Monday.

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OFFICE OF THE DIRECTOR

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Date: 10/10/77

Executive Registry
77-3889/2

S-173

TO: S

Admiral Murphy

FROM: EA/DCI

SUBJECT:

REMARKS:

Admiral Turner did
Bring this up with
Sec Vance - 14 April -
and Vance has no
objections to proceeding
with Publication of the
Paper.

OK
BFL

S-17.3

Deputy to the DCI
for the Intelligence Community

15 April 1977

NOTE FOR: The Director

Stan:

It was mentioned by Paul Walsh this morning at the 9 o'clock meeting that INR/State is approaching Vance to get him to request that you not publish your unclassified Soviet Civil Defense paper.

You can see from my 25 March memo to you (attached), second page, that State did have reservations prior to the NFIB on 28 March. But, you will recall that at the NFIB, the only objections came from General Tighe and the Air Force. Our records show no objection from the State Rep at that meeting.

I personally see no reason why we shouldn't publish this unclassified document. This is a heads-up memo, so you can prepare your response to Vance if and when he brings it up.

25X1 S. Vance may
argue that your
paper should not go
in light of upcoming
US-USSR meetings on civil DEF.

Cover memo

MEMORANDUM FOR: Mr. Rick Inderfurth
Special Assistant to the President
for National Security Affairs

Attached for your information is a copy
of a memorandum prepared in response to a
request from Robert Ginsburg of Stu Eizenstat's
staff.



STANSFIELD TURNER
Admiral, U. S. Navy
Director, Central Intelligence Agency

Date **1 APR 1977**

FORM 101 USE PREVIOUS
5-75 EDITIONS

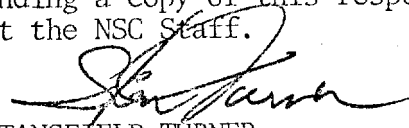
MEMORANDUM FOR: The Honorable Stuart E. Eizenstat
Assistant to the President for Domestic
Affairs and Policy

The attachment was prepared in the Office of Strategic Research in response to a request by Robert Ginsburg of your staff. The office would welcome the opportunity to discuss the matter further with you. If you wish to do so, please contact

25X1

Please note that Mr. Ginsburg does not have the clearances necessary for access to memorandum No. 2 in the attachment.

I am also sending a copy of this response to Rick Inderfurth at the NSC Staff.


STANSFIELD TURNER
Admiral, U. S. Navy
Director, Central Intelligence Agency

Date

1 APR 1977

FORM 101 USE PREVIOUS EDITIONS
5-75

MEMORANDUM FOR: The Honorable Stuart E. Eizenstat
Assistant to the President for
Domestic Affairs and Policy

This collection was prepared in the Office of Strategic Research in response to a request by Mr. Robert Ginsburg of your staff. The authors would welcome the opportunity to discuss the matter further with you. If you wish to do so, please contact Mr.

[Redacted]

E. H. Knoche
Deputy Director of Central Intelligence

Attachments:
As Stated

Date

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MEMORANDUM FOR

W

This folder contains a response to a verbal request from Robert Ginsburg of the Domestic Affairs and Policy Staff. Part of the response is Top Secret Codeword, but Ginsburg has only a Secret clearance; therefore, we are sending the package to his supervisor, Mr. Eizenstat, who has the necessary clearances.

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Date

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UNCLASSIFIED		CONFIDENTIAL		SECRET	
OFFICIAL ROUTING SLIP					
TO	NAME AND ADDRESS	DATE	INITIALS		
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COMMENT		FILE		RETURN	
CONCURRENCE		INFORMATION		SIGNATURE	
Remarks: <u>To DCI</u> Stu Eizenstat, a close friend and adviser to the President, is not normally on our beat. Before responding to his request for this intelligence info, we checked with Indefurth of the NSC Staff who said to go ahead. Recommend signature. <div style="text-align: right;">H. Knoche</div>					
FOLD HERE TO RETURN TO SENDER					
FROM: NAME, ADDRESS AND PHONE NO.					DATE
Deputy Director for Intelligence					3/28/77
UNCLASSIFIED		CONFIDENTIAL		SECRET	

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ROUTINE

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TOP SECRET

TO:	NAME AND ADDRESS	DATE	INITIALS
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REMARKS:			
FROM: NAME, ADDRESS, AND PHONE NO.			DATE

(Security Classification)

Good Plans

CONTROL NO

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Copy #4

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Warning Notice

Sensitive Intelligence Sources and Methods Involved

NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions

1 April 77

S-17.3

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(Security Classification)

DISSEMINATION CONTROL ABBREVIATIONS

NOFORN-	Not Releasable to Foreign Nationals
NOCONTRACT-	Not Releasable to Contractors or Contractor/Consultants
PROPIN-	Caution-Proprietary Information Involved
USIBONLY-	USIB Departments Only
ORCON-	Dissemination and Extraction of Information Controlled by Originator
REL . . . -	This Information has been Authorized for Release to . . .

CIA Estimates of Soviet Defense Spending

1. The attached three memos were prepared by the Office of Strategic Research, CIA in response to a verbal request by Mr. Robert Ginsburg of the Domestic Affairs and Policy staff. Because of the classification of Memorandum 2, the package is being sent to Mr. Stuart E. Eizenstat, Assistant to the President for Domestic Affairs and Policy, who has the required security clearances.

2. The first memo addresses questions on the indicated paragraphs in a Business Week article in a quote-comment format and lays out some of the arithmetic. The second lists the sources of the new ruble price information. The third memo discusses the effect of the upward revision of the ruble estimates on some important intelligence judgments regarding the Soviet military effort.

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The CIA's goot in assessing the Soviets

The agency seriously miscalculated how defense fits into Russia's economy

Through three decades of the cold war, U.S. policy planners have repeatedly faced crises in which it was vitally important to gauge both the size of the Soviet defense effort and the nature of its military capabilities. Their security blanket at such times was the reputation of a group of Central Intelligence Agency analysts—including hundreds of economists—who were presumed to have an unmatched degree of expertise on how defense fits into the Soviet economy.

Each of the armed services always had—and still has—its own intelligence establishment. But the CIA's Sovietologists steadily gained ground at the expense of other intelligence agencies mainly because only the CIA had the vast store of data and sheer analytic manpower needed to integrate jigsaw bits of information into a coherent picture of the war-making capabilities of the Soviet economy.

For at least a decade, there have been critics who argued that the CIA's model of the Soviet economy was a hopelessly complex superstructure that bore little relation to reality—an example of secret research gone wild. Yet for years the sheer weight of the resources devoted to the CIA's Soviet project allowed the agency to carry the day.

But as Admiral Stansfield Turner—President Carter's second nominee for the sensitive position of CIA director—approaches his confirmation hearings, a pall has fallen over the agency's presumed Soviet expertise. The CIA's Soviet picture has now been found to be incredibly distorted, to an extent far beyond agency's admissions thus far. The hearings. With the Carter Administration trying to move beyond existing nuclear arms treaties with the Soviet Union, toward both nuclear and conventional arms reduction, it now appears that at least four congressional committees will soon examine the intelligence communities' views on Soviet defense. Some of the most disturbing points raised will center on the CIA's economic analysis.

By the agency's own admission, it has seriously underestimated the level of Soviet defense spending. During his May, 1976, presentation to Congress, George Bush, the agency's director at

the time, acknowledged that the CIA's current estimate of 50 billion to 55 billion rubles for Soviet defense outlays in 1975 was "about twice" the agency's earlier estimate. But throughout the hearings, the joint subcommittee on priorities, headed by Senator William Proxmire (D-Wis.), accepted agency assurances that virtually the only error had to do with the Soviet Union's efficiency in producing military hardware, and not with the quantity or quality of that hardware.

What the CIA has not yet disclosed, however, is that the agency's earlier estimate of Soviet weapons spending was far worse than its estimate of overall Soviet defense spending (chart). The current CIA figures for Soviet military investment outlays are about 400% of their previous level. During the agency's congressional presentation in 1974—the last one prior to the agency's massive revision of the Soviet figures—William E. Colby, then CIA director, told the Proxmire subcommittee that "expenditures devoted to [military] investment [procurement of hardware and construction of facilities] have dropped from about 40% of total defense expenditures in 1960 to about 20% in 1972." But the CIA's current revision says: "Since 1970, investment outlays have taken about 40%" of total Soviet defense spending. Thus, the agency has not only doubled its total estimate of Soviet outlays during the 1970s, it has doubled procurement's share of that total.

The agency's explanations so far are not adequate to account for the fourfold increase in the estimated cost of Soviet weaponry. This creates a strong presumption that the error was not limited to the CIA's underestimate of ruble prices in the Soviet defense sector. Quite possibly, more fundamental errors are involved, such as underestimating the quantity or performance capabilities, or both, of Soviet weapons systems.

The Soviet pattern. The current CIA data also suggest a pattern of Soviet behavior that is strongly at odds with earlier views. Until the recent revision of Soviet defense spending, CIA figures showed a marked decline in the share of Soviet gross national product devoted to military purposes—to about 6% in the mid-1970s from about 12% in the mid-1950s. The CIA now says this military "burden" has been flat or declining within the 11%-to-13% range between 1970 and 1975, although the agency has not had time to produce consistent figures for previous years.

But critics suspect that the agency's inability to reconstruct earlier Soviet defense data reflects methodological problems that continue to produce underestimates. And some experts suggest that the Soviet military burden has actually continued on a steadily rising course—to a 1975 GNP share of 14% to 15% from a 1960 level of 8% to 9%. This would mean that the Soviets have been placing an increasingly high priority on military strength at the very time when the superpowers were supposedly ushering in a new period of détente.

The evidence. Little is known about the reasons for the CIA's abrupt about-face in its assessment of the Soviet defense effort, but BUSINESS WEEK's investigation suggests that two distinct adjustments were involved.

In late 1974 or early 1975 the CIA's adamancy began to erode under the weight of mounting evidence advanced aggressively by outside critics and top officials of competing intelligence agen-

New proof that Russia boosted military spending while talking détente

cies in the State Dept. and the Pentagon. This evidence included cost data obtained covertly for specific defense items, including shipbuilding, that were at variance with the CIA's figures; unexpected sophistication of Soviet weaponry captured by the Israelis during the 1973 Mideast war; and statements made to undisclosed official Soviet bodies by Communist Party Secretary General Leonid I. Brezhnev and by Premier Alexei Kosygin.

At this point, a joint CIA-Defense Intelligence Agency (DIA) task force was convened to review all available information, including some culled from the intelligence services of other NATO countries. The resulting consensus appears to have involved a massive upgrading of the presumed quantity or quality of Soviet weaponry, since the procurement share of total estimated military outlays was doubled back to the 40% level of 1960. At the same time, figures for other outlays were trimmed, so the total defense figure remained at about 6% of GNP, with the agency conceding that if a variety of estimation factors had all tended toward the low side, the true figure could range as high as 8%.

The breakthrough. So as matters rested in early 1975, the CIA's assessment for total Soviet defense outlays was about 27 billion rubles. But by June 18, 1975—the

opening of the CIA's annual presentation to Congress—the agency's estimate of the percent of Soviet GNP devoted to the military were in total disarray, and the agency was excused from discussing them. What had happened was that an analyst from the CIA and one from the DIA had wangled permission to “go into the field” in a long-shot attempt to get classified Soviet assessments of their own defense costs. What they came up with was irrefutable evidence that the CIA's overall figure for 1970 had been only about half as high as it should have been.

Even then, according to Lieutenant General Daniel O. Graham, a former DIA director, it was only through the intercession of former Defense Secretary James R. Schlesinger that the CIA's SCAM (Soviet Costing Analytic Model) was finally called to task. “They all wanted to squelch the evidence,” he says, “and impugn the credibility of very good evidence on what the Soviets consider their own defense costs to be.” But Schlesinger, an economist and former Rand Corp. specialist on national security, insisted on the review procedure that ended by certifying the authority of the covertly obtained documentation. “If it wasn't for that,” Graham says, “we'd still be stuck with the same ridiculous figures.”

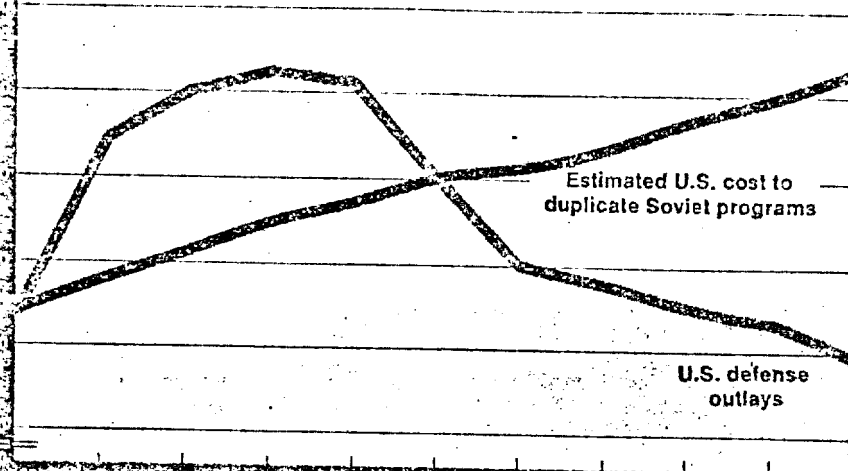
Once certified as trustworthy, the new evidence, which amounted to an unprecedented intelligence breakthrough, struck the CIA like a thunderbolt. “I doubt we could ever have caught this by economic analysis,” one analyst says. But another agency official reacts defensively: “You don't make a change every time you get a small piece of evidence. If you change every year, people are going to start criticizing. That's a bureaucratic norm.”

The question remains, however, whether the agency's analysts have any deeper understanding of Soviet developments than they did prior to the revision. BUSINESS WEEK's findings do not preclude the possibility that agency estimates were, in essence, just doubled across the board to achieve agreement with the overall defense figure obtained by the two analysts who went covert. In other words, the agency may have no firmer grasp on the proportions of Soviet defense costs than it did in 1974, when it thought procurement accounted for only 20% of the total. And it may have no sounder conception of the dynamics of Russia's military burden than it did two years ago, when it said it accounted for only 6% of Soviet GNP.

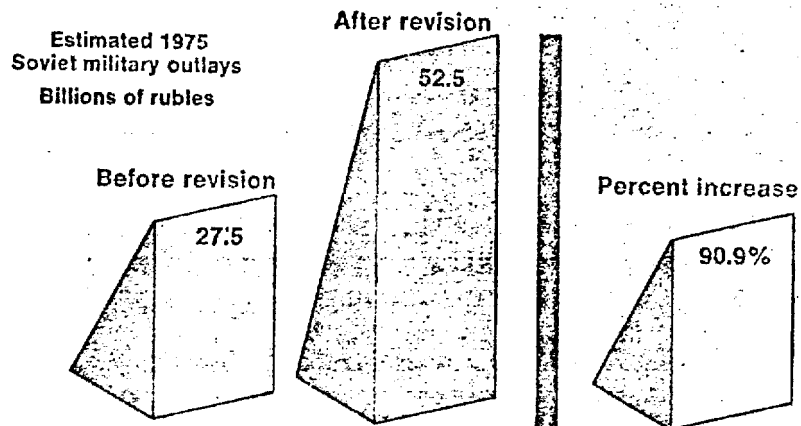
The civilian sector. This kind of uncertainty is troubling not only to experts in strategic studies but also to those whose interests span the entire Soviet economy. The whole point of the “military” calculation is that whatever goes into military costs must come out of GNP

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Even before latest revisions, their dollar estimates showed that the Soviet military effort was bigger and growing faster than that of the U.S.



But now, the CIA has drastically increased its estimate of Soviet defense costs in rubles



And more than 60% of the total 1975 error arose from undershooting the estimate for weapons procurement and construction

	Before revision Billions of rubles	After revision Billions of rubles	Percent Increase
Research, development, testing, and evaluation	9.2	10.0	8.7%
Troop pay, food, and personal equipment	8.5	10.5	23.5%
Replacement, maintenance, and operating costs	4.3	11.0	155.8%
Weapons procurement and construction of military installations	5.5	21.0	281.8%
Total	27.5	52.5	90.9%

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